

## *How Much Debt Do You Really Have?*

Before you can start on your way to financial freedom, you first have to pinpoint exactly how much debt you really have. For many people, figuring out how deeply in debt they are, is like going to the dentist; you know it's good for you, but it's not always pleasant. For some people, they have already given up. They know they're in a big hole, but don't want to deal with it.

But if you're serious about building positive cash flow in your life, you have to start with the fundamentals of financial literacy. Here's a quick quiz to get yourself going. Put a 1 next to any of the questions to which you answer yes:

Do you routinely pay your bills late?

Have you even hidden a bill from your spouse?

Have you neglected repairing the car because of insufficient funds?

Have you bought something recently that you didn't need and couldn't afford?

Do you regularly spend more than your paycheck?

Have you been turned down for credit?

Do you buy lottery tickets in the hope of getting out from under?

Have you put off saving money for a rainy day?

Does your total debt (mortgage excluded) exceed your rainy day reserve?

Add up the numbers in the boxes. If your score is 0, that's great! You're already in control of your cash flow. If you scored in the 1–5 range, you may want to think about reducing your debt by following rich dad's program. If you scored in the 6–9 range, watch out—you may be headed toward financial disaster.

### *Rich Dad's Emergency Cash Flow Program*

If you really want to gain control of your cash flow, you're going to need three key ingredients: figuring out where you are financially; personal discipline;

and a game plan that's going to take you where you want to go. Use the financial statement from our CASHFLOW 101 game, included in the Appendix, to fill out your own financial statement.

Is it difficult to change your habits? You bet it is. It depends on you, and how eager you are to take control of your financial life. Remember, you don't have to do any of these steps. But if you don't, you'll just remain where you are, in the current rat race of spending your paycheck on bills that never stop coming (Unless, of course, you win the lottery. It's always amazing to me to see how many people think that winning the lottery is really a solid plan of getting ahead financially)

But let's get back to reality. While you don't have to cut up your credit cards, you do have to follow a debt reduction plan. The first two steps in doing this are: 1) *Pay yourself first*. Whenever you get a paycheck, the first bill you pay is to yourself. Not the car payment. Not the mortgage or rent money. Pay yourself a decent bit of money, and then immediately put that money into a separate investment savings account. And don't touch it until you're ready to invest it in some other way. 2) *Your next step is to cut back on what I call doodads*. Those are those extra things in life that we all crave but really don't need. It might be a fancy car, or going out to dinner at expensive restaurants, or really sharp clothes. Whatever your doodads are, just stop that habit of purchasing them impulsively. Admittedly, this is where your self-discipline and willpower come into play. But if you really want to get out of debt, you need to adopt the old-fashioned virtue of delayed gratification.

Now if you have read our other books, you may think we are changing our advice. While rich dad believes in expanding your means to be able to afford any lifestyle you want, there are times when you have to stop and take other measures to get started on the right track. Remember that saying, "What do you do when you find yourself in a hole? Stop digging." Earlier I referred to people who are at the red line of life. They are barely making it from paycheck to paycheck. The following advice and the "Take Control of Your Cash Flow" formula from *Rich Dad's CASHFLOW Quadrant*, reproduced below and included in the Appendix of this book, are designed to help you take those drastic steps that will help you "stop digging" and start a plan for a better financial future.

### ***What's Next?***

Okay, you've decided to discipline yourself and take control of your cash flow. Here are the next steps:

- Follow the “Take Control of Your Cash Flow” formula from *Rich Dad's CASHFLOW Quadrant*.

### ***Take Control of Your Cash Flow***

1. Review your financial statement that you just created.
2. Determine which quadrant of the CASHFLOW Quadrant you receive your income from today:
3. Determine which quadrant you want to receive the bulk of your income from in five years:
4. Begin your cashflow management plan:
  - A) Pay yourself first. Put aside a set percentage from each paycheck or each payment you receive from other sources. Deposit that money into an investment savings account. Once your money goes into the account, NEVER take it out, until you are ready to invest it.

Congratulations! You have just started managing your cash flow.

- B) Focus on reducing your personal debt.

The following are some simple and ready-to-apply tips for reducing and eliminating your personal debt:

### ***Tip #1: If you have credit cards with outstanding balances...***

1. Cut up all your credit cards, except for one or two.
2. Any new charges you add to the one or two cards you now have must be paid off every month. Do not incur any further long-term debt.

### ***Tip #2: Come up with \$150 to \$200 extra per month. Now that you are***

***becoming more and more financially literate this should be relatively easy to do. If you cannot generate an additional \$150 to \$200 per month, then your chances for achieving financial freedom may only be a pipe dream.***

***Tip #3: Apply the additional \$150 to \$200 to your monthly payment of ONLY ONE of your credit cards. You will now pay the minimum PLUS the \$150 to \$200 on that one credit card.***

Pay only the minimum amount due on all other credit cards. Often people try to pay a little extra each month on all their cards, but those cards surprisingly never get paid off.

***Tip #4: Once the first card is paid off then apply the total amount you were paying each month on that card to your next credit card. You are now paying the minimum amount due on the second card PLUS the total monthly payment you were paying on your first credit card.***

Continue this process with all your credit cards and other consumer credit such as store charges. With each debt you pay off, apply the full amount you were paying on that debt to the minimum payment of your next debt. As you pay off each debt, the monthly amount you are paying on the next debt will escalate.

***Tip #5: Once all your credit cards and other consumer debt is paid off now continue the procedure with your car and house payments.***

If you follow this procedure you will be amazed at the shortened amount of time it takes for you to be completely debt free. Most people can be debt free within five to seven years.

***Tip #6: Now that you are completely debt free, take the monthly amount you were paying on your last debt and put that money toward investments. Build your asset column.***

That's how simple it is.

***Other Tips to Help You Get Control***

- Start paying all your bills on time to avoid any late fees.
  - Find a credit card with a lower interest rate and no annual or transfer fees.
- Then you may want to consider consolidating your other credit card debts to that one card. This will allow you to pay less in interest and fees.
- Stop using automated teller machines (ATMs) that charge a fee. That's like paying to use your own money!

### ***You May Need to Get a Grip on Your Spending Habits***

- Get in the habit of paying cash. Use a charge card only for emergencies.
- Learn how to stop buying on impulse. Use your willpower to say no!
- Shop at wholesale clubs and discount department stores.
- Respect your budget! If you've reached the \$200 food limit, skip the potato chips and ice cream.
- Buy generic medicines or find a discount pharmacy.
- Start looking for a part-time job, business, or other way to earn a little extra income.
- Turn your thermostat down. Turn off a few lights to save on your electric bill.
- Learn how to winterize your home from top to bottom. Insulate pipes. Get rid of drafty windows. Eliminate those areas where you lose energy.
- Cut back on your home telephone as well as cell phone usage. This is an area where many people overlook how they can save money.
- Check on your insurance policies. See if you can find some comparable policies for the same cost. Raise your deductible to lower your monthly bills.

In short, start getting in the habit of watching how you spend a dollar here and a dollar there. Give yourself a week and just check on how much you can save by not buying the expensive shampoo, or not going out to dinner, or cutting back on your lengthy phone conversations. Let's say you save \$30 or \$40 a week. Over a month, that comes to more than \$100. Over a year, you're saving \$1,200 or more—and that's a nice chunk of change to put toward paying off your credit cards.

Your goal should be to get out of debt as quickly as possible so you can start looking to a better future and start thinking like the rich. Then you can start buying or building assets that will generate the passive income to pay for your

phone bills, electric bills, insurance policies, and more. That is the rich dad philosophy of expanding your means to live the lifestyle you choose.

### ***Secured Versus Unsecured Debt***

There are two types of debt. *Secured debt* is debt that has collateral backing it up. Typical examples would include a home mortgage or a car loan. *Unsecured debt* is debt without any collateral backing it up. That usually includes credit card bills, personal loans, and medical bills.

The very first debt to try and get rid of is the unsecured kind. In the Rich Dad system, unsecured debt is most definitely what we call bad debt, and the sooner you can eliminate it, the more in control of your finances you will be. That means paying down your credit cards as quickly as you can, along with any other outstanding debts you may have.

Let's look at credit cards for a moment. No question that they are a wonderful convenience. And there really is no reason to cut them up, so long as you fully understand how they can lead to real financial concerns. For example, many credit cards charge you an annual fee just to have the card. Then, on top of that yearly fee, they of course charge an annual percentage rate (APR) on any monies you owe them. Take a look at your credit cards. Most these days are charging around 10 percent on your purchases and balance, but some charge much more than—even as high as 20 percent or 25 percent. Needless to say, you'll spend a fortune trying to pay off credit card debt if you only pay the monthly minimum fee. Get in the habit now of paying off new purchases on your credit card each month.

Where you can find the best APR rates? Easy. Check out the following Web sites to find the best rates and how you can transfer your current credit card debt to a much better APR:

- Bankrate.com ([www.bankrate.com](http://www.bankrate.com))
- Quicken.com ([www.quicken.com](http://www.quicken.com))
- CreditChoice ([www.creditchoice.com](http://www.creditchoice.com))
- iVillage:Money Life ([www.ivillagemoneylife.com](http://www.ivillagemoneylife.com))

### ***Okay, Let's Focus on Getting Rid of Bad Debt***

Here's the precise method I suggest for regaining control of your monthly cash flow:

Take all of your credit cards out of your wallet or purse. Following the formula for "Take Control of Your Cash Flow," check the various outstanding balances on each one. Take the cards with the smallest amount of debt on them, and pay them in full first. Then, once you have paid off those cards, call up the credit card company and cancel them.

From there, do the same on the remaining cards. Keep whittling away at that outstanding debt until it's gone. Please understand that this is a process that, in most cases, cannot be accomplished in just one or two months. Depending on how much cash you have, this process of whittling down your credit card debt may take several months, or even years. But do it—because it's a wonderful financial feeling when you no longer are a slave to those monthly bills. Even better, you'll discover that you now have extra cash each month to pay off other debt (like the debt on your home).

Once you have your credit card melted down, take the extra money you have and start to pay off the mortgage on your home. Most homeowners have the option of prepaying their mortgage. Check your mortgage contract to see if you can do this, or just check with your mortgage holder. In most cases, it makes a lot of sense for homeowners to literally save thousands of dollars by prepaying their mortgage each month. Even just tacking on an extra \$50 a month to your principal payment (be sure you note that the money is to be added to the principal on your mortgage payment), you'll take years and thousands of dollars off your home mortgage.

The best news is that those individuals who have the willpower to follow these simple measures will find themselves financially solid and free of major debt within a matter of a few years. It may sound impossible to you in your current financial situation, but trust me—these measures will work for you.

### ***Emergency Measures***

What can you do if you're really losing the fight against all of your debt? Truly at your own red line of life? Chances are you should check into some free or low-cost counseling. Here are some top resources to contact:

- The National Foundation for Credit Counseling (1-800-388-2227,

[www.nfcc.org](http://www.nfcc.org)). This nonprofit service, funded in part by contributions from credit card companies, offers educational programs and confidential credit consultation. For those who are deep in debt, a counselor will draw up a relief plan and negotiate favorable payment terms with your creditors.

- Debtors Anonymous (1-781-453-2743 [www.debtorsanonymous.com](http://www.debtorsanonymous.com)). Modeled on Alcoholics Anonymous, this support group follows a twelve-step program to help members overcome compulsive spending.